



TENNESSEE HOUSING MARKET

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Economic Overview

The recovery inched along during the second quarter, producing job growth but not at a pace that will reduce the unemployment rate to a reasonable level anytime soon. While employment improved, the housing market did not, as the expiration of the home buyers' tax credit caused home sales and construction to wither. It remains to be seen whether the housing market can achieve stable growth without help from policymakers.

Tennessee job growth accelerated somewhat during the second quarter, with nonfarm employment rising by 17,000 from the first quarter after seasonal adjustments (Table 1). Jobs were added in both goods- and services-providing sectors, indicating

a broad-based, if moderate, rate of job recovery. In fact, manufacturing registered its first quarterly gain in quite some time; not since 2004 has manufacturing produced an increase of similar magnitude.

The gain in manufacturing jobs has to do with the growth of the manufacturing sector nationally. A widely followed measure of national manufacturing growth, the PMI index, has increased for 12 straight months. The growth has been widespread, with 10 of 18 subsectors reporting improved conditions. The rate of expansion has slipped during the past two months, however, as sales begin to slow and the backlog of orders is reduced.

Another important indicator for the labor market consists of initial claims for unemployment insurance (Figure 1). When initial claims rise, employers are reducing their workforces. Average weekly initial claims for Tennessee dipped to 7,764 during the second quarter, down from 8,406 in the previous quarter. Weekly

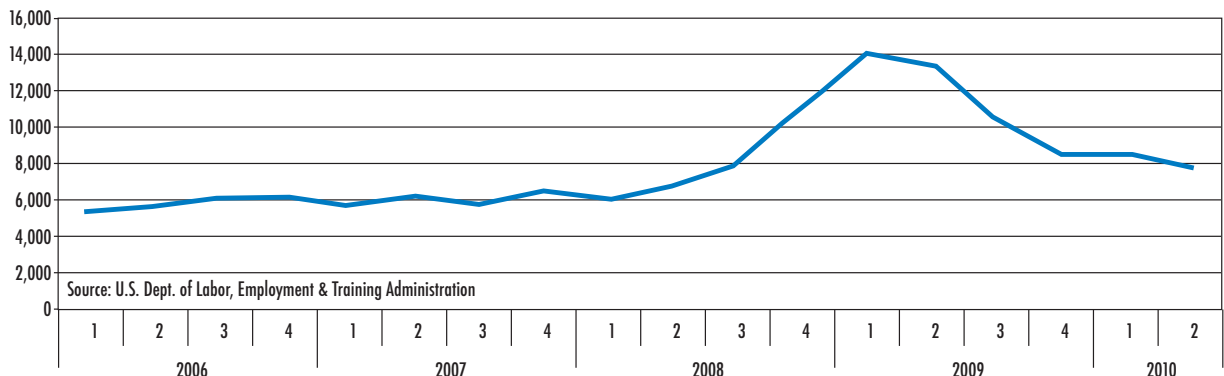
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Table 1.
Selected Tennessee employment indicators (thousands, seasonally adjusted)

Employment by industry (nonfarm)	2009.1	2009.2	2009.3	2009.4	2010.1	2010.2
Total nonfarm	2,670.9	2,619.4	2,596.4	2,592.7	2,594.0	2,610.9
Goods-producing sectors	443.4	419.4	409.3	405.0	403.1	406.8
Manufacturing	326.6	309.1	302.4	301.1	300.8	303.4
Services-providing sectors	2,227.4	2,200.0	2,187.1	2,187.7	2,190.8	2,204.1
Labor force	3,045.3	3,030.1	3,010.5	2,995.4	3,002.4	3,033.8
Total employment	2,752.8	2,705.9	2,683.4	2,674.1	2,682.1	2,721.1
Unemployed	292.5	324.3	327.0	321.3	320.3	312.7
Unemployment rate	9.6%	10.7%	10.9%	10.7%	10.7%	10.3%

Source: Bureau of Labor Statistics

Figure 1.
Tennessee initial claims for unemployment insurance (quarterly averages of weekly data, seasonally adjusted)



Source: U.S. Dept. of Labor, Employment & Training Administration

**Table 2.****Permits issued for privately owned new housing** (thousands, seasonally adjusted annual rate)

Quarter	Single-Family Permits			Multi-Family Permits			Total Permits		
	Tennessee	South	U.S.	Tennessee	South	U.S.	Tennessee	South	U.S.
2007.2	29.3	528.3	1,031.7	5.5	204.3	425.0	34.9	732.7	1,456.7
2007.3	27.0	474.7	916.3	8.1	163.3	398.0	35.1	638.0	1,314.3
2007.4	22.3	414.0	786.0	7.8	175.3	402.3	30.1	589.3	1,188.3
2008.1	18.7	366.3	671.3	5.8	170.0	353.7	24.5	536.3	1,025.0
2008.2	17.4	333.7	633.0	2.2	152.7	428.0	19.6	486.3	1,061.0
2008.3	15.4	283.7	547.7	7.0	162.7	311.0	22.3	446.3	858.7
2008.4	9.9	215.3	417.7	4.6	106.3	221.0	14.5	321.7	638.7
2009.1	10.7	202.7	366.7	2.6	83.0	179.0	13.3	285.7	545.7
2009.2	11.1	222.7	423.7	3.0	67.3	134.0	14.2	290.0	557.7
2009.3	12.6	248.7	478.0	1.9	54.7	122.7	14.5	303.3	600.7
2009.4	13.4	254.0	491.3	2.1	56.3	134.7	15.5	310.3	626.0
2010.1	13.6	270.7	524.7	6.3	57.3	130.0	19.8	328.0	654.7
2010.2	12.7	235.0	447.7	3.4	60.7	141.3	16.1	295.7	589.0
Change from previous quarter	-6.4%	-13.2%	-14.7%	-46.1%	5.8%	8.7%	-18.9%	-9.9%	-10.0%
Change from previous year	14.0%	5.5%	5.7%	11.3%	-9.9%	5.5%	13.4%	2.0%	5.6%

Source: Census Bureau

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claims at this current level typically are associated with job growth. Preliminary information for July suggests that labor market conditions may be weakening, as claims are on the rise.

Rising employment and falling initial claims for unemployment insurance helped to bring down the unemployment rate to 10.3 percent from 10.7 percent in the previous quarter. The labor force rose 1.0 percent during the quarter, the second quarterly increase.

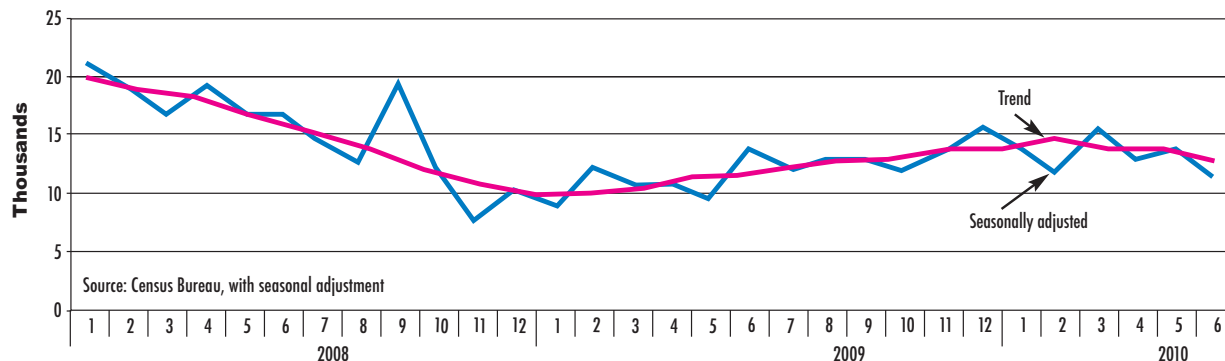
Housing Construction

Home construction activity, as measured by newly issued building permits, declined during the second quarter following five quarters of growth. The decline was undoubtedly due to the expiration of the new home buyer's tax credit. Single-family

permits dropped from 13,600 to 12,700 for the second quarter, a 6.4 percent decrease. However, permits still are considerably higher over the year, up 14 percent from the second quarter of 2009. By comparison, construction activity dropped much more in the South (-13.2 percent) and the United States (-14.7 percent) from the first quarter. The South and the United States also produced a much smaller over-the-year increase in single-family permits as compared with Tennessee.

Figure 2 shows how the trend of single-family permits peaked earlier this year; the trend helps to show the underlying momentum of housing construction free from the volatile quarter-to-quarter movements. Absent the home buyers' tax credit, the trend is most likely to show flat sales for the third quarter of 2010, barring a resurgence in job growth and consumer confidence.

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Figure 2.**Tennessee single-family home permits** (seasonally adjusted annual rate, thousand units)



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Real Estate Transactions and Mortgages

Taxes collected on real estate transactions and new or refinanced mortgages are mixed: transfer tax collections rose during the quarter (Figure 3), while mortgage tax collections fell (Figure 4). Transfer taxes rose 5.8 percent from the first quarter and are 14.2 percent higher over the year. The increase in the tax collections coupled with stable-to-falling real estate prices indicates that more deals were settled compared with the first quarter. Part of the explanation for the increase might be a rebound from the first quarter's cold, wet weather that brought more buyers out to look for homes. The second quarter is much more in line with the third and fourth quarters of 2009.

The mortgage tax continued to trend downward, down 9.6 percent from the previous quarter and 30.2 percent lower over the

year. The most likely explanation is declining mortgage rates along with lower real estate prices.

Home Sales

Home sales rose during the second quarter as buyers rushed to complete deals prior to the expiration of the home buyers' tax credit. Sales rose in Nashville, Memphis, and Knoxville, as shown in Figures 5–7 (on page 5). The pattern of sales during the past three quarters resembles a sawtooth as buyers react to the tax credit. On balance, second quarter sales in Nashville and Memphis reverted to about the same level as in the fourth quarter of 2009. The second quarter bounce for Knoxville was somewhat lower. Inventories fell somewhat in Nashville and Memphis but rose in Knoxville.

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Figure 3.
Real estate transfer tax collections (seasonally adjusted annual rate)

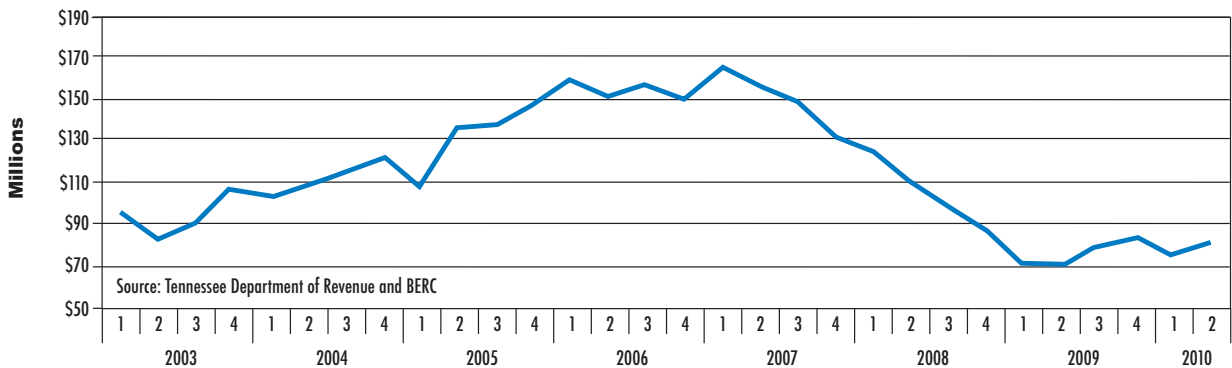
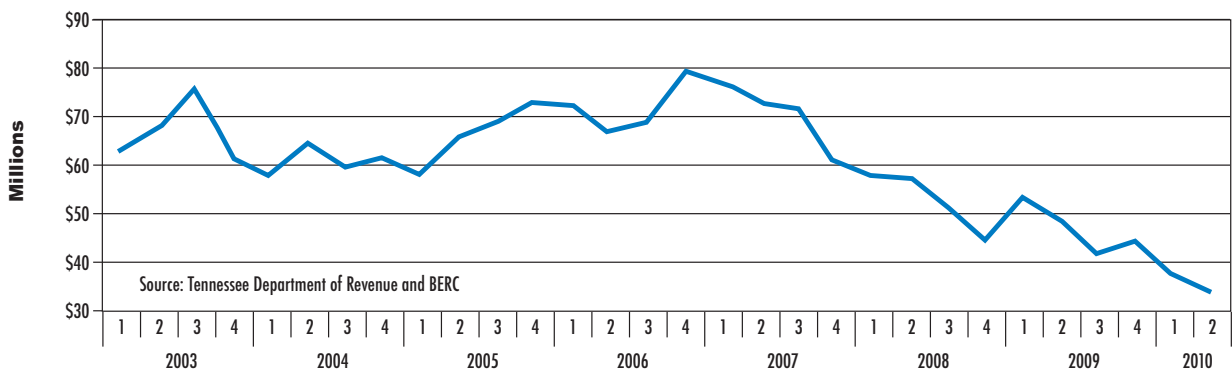


Figure 4.
Mortgage tax collections (seasonally adjusted annual rate)



**Table 3.****Mortgages past due, new foreclosures started, and foreclosure inventory**

(% of mortgages serviced, seasonally adjusted)

Quarter	Tennessee			United States		
	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter	Mortgages past due	Foreclosures started during quarter	Foreclosure inventory at end of quarter
2008.1	7.73	0.71	1.50	6.35	0.99	2.47
2008.2	7.96	0.77	1.52	6.41	1.19	2.75
2008.3	8.35	0.77	1.58	6.99	1.07	2.97
2008.4	9.16	0.83	1.77	7.88	1.01	3.30
2009.1	10.03	0.93	1.98	9.12	1.34	3.85
2009.2	10.34	0.99	2.17	9.24	1.47	4.30
2009.3	10.63	1.01	2.26	9.64	1.42	4.47
2009.4	10.47	0.89	2.34	9.47	1.14	4.58
2010.1	10.82	0.99	2.41	10.06	1.17	4.63

Source: Mortgage Bankers Association of America and BERC

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Mortgage Delinquencies and Foreclosures

The percentage of mortgages past due continued to rise in Tennessee, according to Mortgage Bankers Association data for the first quarter (Table 3). Past due mortgages rose to 10.8 percent in Tennessee from 10.5 percent in the previous quarter. Tennessee typically experiences a higher past due rate than the U.S. average; this continues to be the case, but the United States is gradually catching up with Tennessee, as past due mortgages reached 10 percent during the first quarter.

The number of new foreclosures started during the quarter is nearly 1 percent of all mortgages, not much different from the average of the past four quarters and somewhat lower than the U.S. average. The big difference is that Tennessee continues to experience a much lower inventory of foreclosures, 2.41 percent in foreclosure in Tennessee during the first quarter compared with 4.63 percent for the United States.

Home Prices

Home prices continued to fall in Tennessee, according to the most recent data (first quarter) from the Federal Housing Finance Agency (Table 4). Average home prices, including sales and refinanced mortgages, fell 4.8 percent over the year for Tennessee, less than the U.S. average decline of 6.8 percent. Clarksville, Chattanooga, and Knoxville experienced declines substantially lower than the state average, while Nashville's decline was about the same as the state. Larger declines occurred in Memphis and the nonmetro portions of the state.

Conclusion

Job growth improved during the second quarter as manufacturing moved closer to stability. The unemployment rate drifted lower but still remains above 10 percent. Housing construction declined as the home buyers' tax credit expired. Growing foreclosure activity will exert more downward pressure on housing prices. Solid, sustained gains in employment and household income are needed to spur buying activity and soak up some of the inventory of unsold homes.

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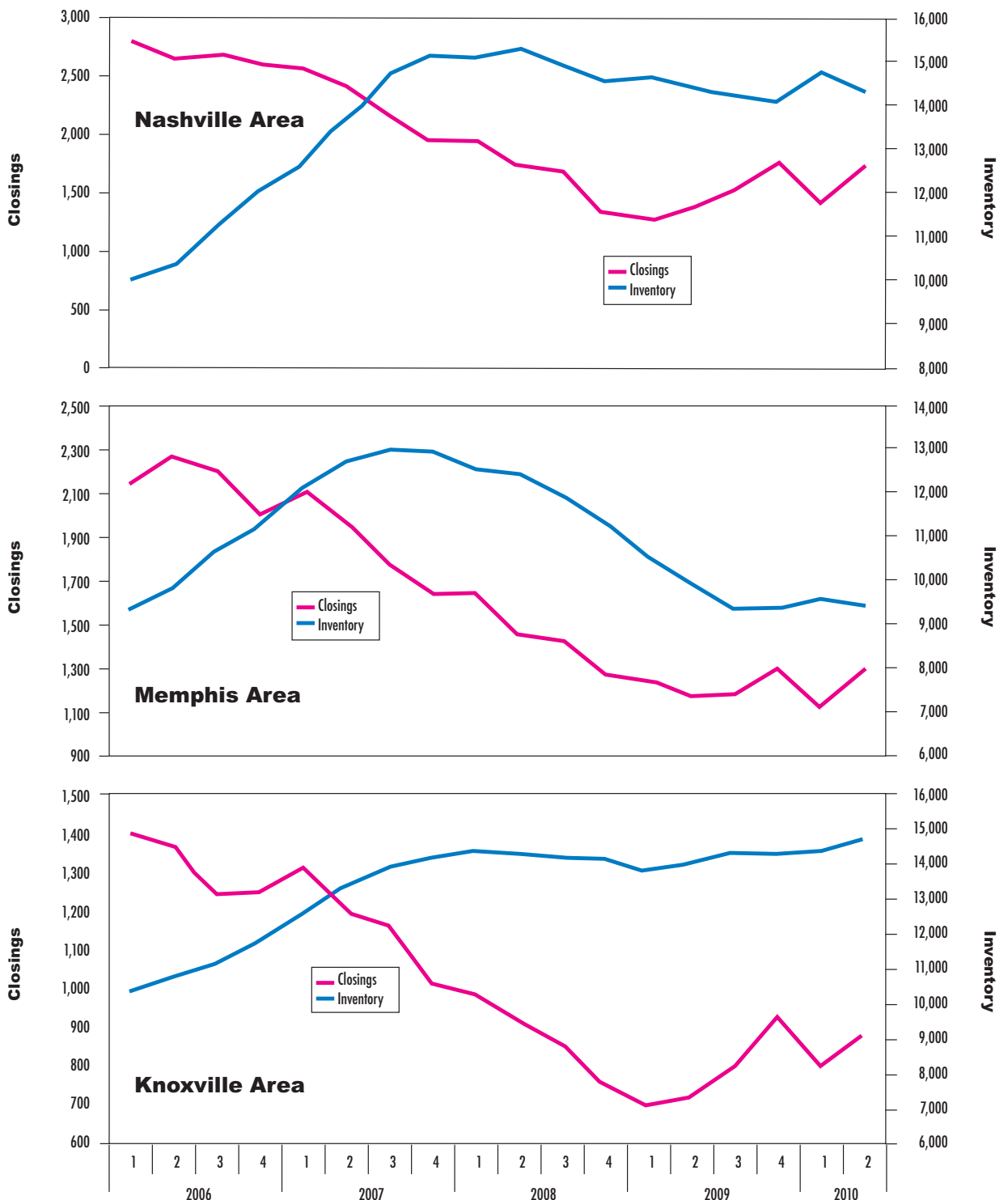
Table 4.**Percent change in housing prices 2009.1 – 2010.1**

Area	Over-the-year % change
U.S.	-6.8%
Tennessee	-4.8%
Chattanooga MSA	-3.2%
Clarksville MSA	-0.6%
Knoxville MSA	-3.9%
Nashville MSA	-4.9%
Memphis MSA	-6.5%
Nonmetro areas of the state	-5.4%

Source: data from Federal Housing Finance Agency, all transactions index



Figure 5.
Single-family sales and inventory (seasonally adjusted quarterly average of monthly figures)



Source: Greater Nashville Association of Realtors, Memphis Area Association of Realtors, Knoxville Area Association of Realtors, and BERCC